

## Message Text

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C O N F I D E N T I A L STATE 120687 TOSEC 010253

NODIS

E.O. 11652: GDS

TAGS: ECON, EEWT

SUBJECT: EPB/CIEP INTERNATIONAL ECONOMIC REVIEW

THE FOLLOWING IS A JOINT SIMON-SEIDMAN MEMORANDUM TO  
THE PRESIDENT ON THE EPB/CIEP INTERNATIONAL ECONOMIC REVIEW:

QUOTE: THE ENCLOSED REPORT, SUBMITTED JOINTLY BY THE  
ECONOMIC POLICY BOARD AND THE COUNCIL ON INTERNATIONAL  
ECONOMIC POLICY, PRESENTS THE RESULTS OF A COMPREHENSIVE  
INTERNATIONAL ECONOMIC POLICY REVIEW CONDUCTED BY EPC/CIEP  
DURING THE FIRST PART OF MAY. IN ADDITION TO GOVERNMENT  
RESOURCES, THE REVIEW DREW UPON THE VIEWS OF NON-GOVERNMENT  
INTERNATIONAL ECONOMISTS, AND EXPERTS FROM THE BUSINESS,  
FINANCIAL AND LABOR COMMUNITIES.

A SUMMARY OF THE RESULTS (DETAILED IN THE ATTACHED  
REPORT) IS OUTLINED BELOW.

WORLD ECONOMIC OUTLOOK

THE DISCUSSION DESCRIBED A BOTTOMING-OUT OF THE ECONOMIES  
IN MOST COUNTRIES AND HIGHLIGHTED THE IMPLICATIONS OF A  
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SIMULTANEOUS RECOVERY OF THE WORLD ECONOMY. THE POTENTIALLY

DANGEROUS SITUATION IN THE UNITED KINGDOM ECONOMY WAS ALSO NOTED. THE TREASURY WILL CONTINUE TO MONITOR THESE CONDITIONS AND PROVIDE THAT INFORMATION TO THE APPROPRIATE AGENCIES.

FOREIGN INVESTMENT

U.S. FOREIGN INVESTMENT POLICY ENCOURAGES THE FREE FLOW OF PRODUCTIVE CAPITAL BETWEEN NATIONS. AFTER REVIEW, IT WAS FELT THAT CURRENT LEGISLATION IS ADEQUATE TO PROTECT OUR NATIONAL INTEREST. THE NEWLY FORMED COMMITTEE ON FOREIGN INVESTMENT WILL MONITOR THIS AREA.

THERE IS DISAGREEMENT AS TO THE EFFECTIVENESS OF U.S. POLICY IN DISSUADING EXPROPRIATION OR IN INSURING PROMPT AND ADEQUATE COMPENSATION IN EXPROPRIATION CASES. THE INTERAGENCY EXPROPRIATION COMMITTEE WILL FOCUS ON THE LEVEL OF U.S. GOVERNMENT RESPONSE IN EXPROPRIATION CASES. THE COMMITTEE WILL MAKE ITS RECOMMENDATIONS THROUGH THE CIEP SENIOR REVIEW GROUP AND THE ECONOMIC POLICY BOARD/ NATIONAL SECURITY COUNCIL.

THERE IS A GROWING TREND TO REGULATE THE ACTIVITIES OF MULTINATIONAL CORPORATIONS. IT WAS AGREED THAT THE INCREASING IMPORTANCE OF THIS ISSUE REQUIRES A COMPREHENSIVE ADMINISTRATION POLICY. STATE, WHICH CHAIRS THE INTERAGENCY COMMITTEE ON MULTINATIONAL CORPORATIONS, IS ESTABLISHING A BUSINESS ADVISORY COUNCIL TO OBTAIN PRIVATE SECTOR INPUT IN THE DEVELOPMENT OF A CODE OF CONDUCT FOR MULTINATIONAL CORPORATIONS.

#### INTERNATIONAL FINANCE

U.S. POLICY SUPPORTS THE RIGHT OF COUNTRIES TO CHOOSE FIXED OR FLEXIBLE EXCHANGE RATES AS LONG AS THEY ADHERE

TO RECOGNIZED STANDARDS OF BEHAVIOR.

THE SUPPORT FUND AGREEMENT, SIGNED BY THE U.S. IN APRIL, IS A POSITIVE AND TANGIBLE EXAMPLE OF CONSUMER SOLIDARITY. THE FUND MUST NOW BE APPROVED BY CONGRESS.

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AN UPCOMING EPB/CIEP SPONSORED SEMINAR INCLUDING LEADING OUTSIDE ECONOMISTS WILL CONSIDER THE ADVANTAGES AND DISADVANTAGES OF FLEXIBLE VS. FIXED EXCHANGE RATES.

FINALLY, IN LIGHT OF THE INCREASING IMPORTANCE OF INTERNATIONAL FLOWS TO OUR ECONOMY, THE ECONOMIC POLICY BOARD HAS REQUESTED THE INTERAGENCY MONETARY GROUP TO

REVIEW THE POSSIBLE ADOPTION BY THE U.S. OF A SET OF  
BALANCE OF PAYMENTS OBJECTIVES.

#### ENERGY: INTERNATIONAL ECONOMIC IMPLICATIONS

THE U.S. GOVERNMENT THROUGH THE INTERNATIONAL ENERGY  
AGENCY HAS MADE GOOD PROGRESS ON THE GENERAL PRINCIPLES  
OF EMERGENCY SHARING, CONSERVATION AND ALTERNATIVE SOURCE  
DEVELOPMENT PROGRAMS. THE ENERGY RESOURCES COUNCIL WILL  
EXPEDITE CONSIDERATION OF THE OPTIONS TO IMPLEMENT THE  
MINIMUM PROTECTED PRICE MECHANISM.

#### INTERNATIONAL TRADE

THE U.S. IS ASSUMING A LEADERSHIP ROLE IN THE MULTI-  
LATERAL TRADE NEGOTIATIONS. THE TRADE POLICY COMMITTEE  
IS DEVELOPING AN INTERIM PACKAGE OF PROPOSALS FOR PRESEN-  
TATION AT THE JULY TRADE NEGOTIATING COMMITTEE MEETING IN  
GENEVA.

THE EAST-WEST FOREIGN TRADE BOARD WITH DEPARTMENT OF  
LABOR PARTICIPATION WILL CONSIDER INITIATIVES CONCERNING  
THE POSSIBLE AMENDMENT OF TITLE IV OF THE TRADE ACT (I.E.,  
TRADE RELATIONS WITH COUNTRIES NOT CURRENTLY RECEIVING  
NONDISCRIMINATORY TREATMENT).

#### EXPORT FINANCE/PROMOTION

THE QUESTION OF THE LEVEL OF GOVERNMENT SUPPORT FOR  
U.S. EXPORTS IS ADDRESSED IN TWO CURRENT INTERAGENCY  
STUDIES. ONE STUDY CHAIRED BY OMB RECOMMENDS A REDUCTION  
IN SUPPORT AND IS OPPOSED BY THE COMMERCE DEPARTMENT.  
BUSINESS OPPOSITION TO THE RECOMMENDED CUTS WILL BE  
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REFLECTED IN COMMENTS BEING PREPARED BY YOUR EXPORT  
COUNCIL.

A SECOND STUDY ON EXPORT FINANCING BY THE NATIONAL  
ADVISORY COMMITTEE STUDY GROUP ON EXIM BANK LENDING  
POLICIES IS EXPECTED TO RECOMMEND REDUCED GOVERNMENT  
SUPPORT. WHEN THE STUDIES AND COMMENTS ARE COMPLETED IN  
EARLY JUNE, OPTIONS WILL BE DEVELOPED BY THE ECONOMIC  
POLICYBOARD FOR YOUR CONSIDERATION.

#### INTERNATIONAL COMMODITIES

THE DEMANDS FOR COMMODITY AGREEMENTS BY CERTAIN PRO-  
DUCER COUNTRY ORGANIZATIONS, HAVE PROMPTED A REVIEW OF  
U.S. INTERNATIONAL COMMODITY POLICY. THE REVIEW TENTA-

TIVELY CONCLUDES THAT FROM THE STANDPOINT OF PRICE STABILITY OR RESOURCE TRANSFER IT IS NOT CURRENTLY IN OUR INTEREST TO INTERFERE IN ANY OF THE ESTABLISHED MARKETS

FOR THE MINERALS REVIEWED. HOWEVER, THE FOREIGN POLICY IMPLICATIONS OF THE GROWING POLITICAL PRESSURES IN THE COMMODITIES AREA, SUGGEST THE NEED FOR A MORE POSITIVE U.S. RESPONSE. THE TASK FORCE ON INTERNATIONAL COMMODITY POLICY IS DEVELOPING OPTIONS FOR REVIEW BY THE ECONOMIC POLICY BOARD/NATIONAL SECURITY COUNCIL.

NEW ECONOMIC ORDER

THE DEMANDS FOR COMMODITY AGREEMENTS UNDERLIE POLITICAL PRESSURES FOR A NEW ECONOMIC ORDER BY MANY LESS DEVELOPED COUNTRIES. THE NEW ORDER WOULD SIMPLY IMPLY A SUBSTANTIAL REJECTION OF THE COMPETITIVE MARKET SYSTEM. IT WAS AGREED THAT A COMPREHENSIVE RESPONSE TO THE DEMANDS FOR THE NEW ECONOMIC ORDER WAS NEEDED. THE STATE AND TREASURY DEPARTMENTS WILL PREPARE A PAPER, ADDRESSING THIS ISSUE, FOR CONSIDERATION AT THE NEXT JOINT ECONOMIC POLICY BOARD/COUNCIL ON INTERNATIONAL ECONOMIC POLICY MEETING. UNQTE. INGERSOLL

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